



ASIAN DEVELOPMENT BANK
Regional and Sustainable
Development Department
P.O. Box 789
0980 MANILA, PHILIPPINES

9 March 2005

RE: Public Comments on Environmental Guidelines

Dear Sir / Madam:

I reviewed the **Interim Environmental Guidelines for Public Comment** provided on the Millennium Challenge Corporation website. It is assumed the MCC will be guided by the World Bank's policies and operational guidelines on environmental assessment, involuntary resettlement, and indigenous people, which provide a good starting point. I wish to offer two points for consideration:

1. An additional aspect which should be included in the MCC environmental assessment guidelines is natural disaster risk and vulnerability assessment. Major natural disasters severely disrupt the social and economic well-being of poor countries, often setting back national development for years. One only need look at the impact of the recent Indian Ocean tsunami on Sri Lanka, one of the MCC's focal countries. The impact of natural disasters can be lessened through improved development planning which includes "risk reduction" as a guiding principle. Acknowledging the impact natural disasters have on development, governments, development agencies, and others from around the world recently gathered at the United Nations World Conference on Disaster Reduction in Kobe, Japan to set a global agenda for risk reduction.

Among the multilateral development banks (MDBs), the Inter-America Development Bank (IDB) and the Caribbean Development Bank (CDB) are the most advanced in this area. The IDB has trained disaster focal points in each of its member country missions, and the CDB has incorporated natural disaster risk and vulnerability assessment into its project environmental assessment procedure. Several years ago the World Bank established a Disaster Management Unit (now known as the Hazard Management Unit) and was the founder of the ProVention Consortium, now hosted by the International Federation of the Red Cross in Geneva. The Asian Development Bank, while behind the other MDB's, has begun to take natural disaster risk reduction into consideration as it develops rehabilitation and recovery plans for its member countries effected by the Indian Ocean tsunami.

2. The MCC's principle of having the host country responsible for completion of the Environmental Impact Assessment, as well as for environmental monitoring of project implementation, is an important step towards helping developing countries become more self-sufficient. But the MCC should keep in mind that some developing countries still have inadequate environmental legislation and regulation, which will require a degree of hands-on involvement by the MCC. Similarly, many developing countries have limited institutional capacity or experience in carrying out environmental assessments and undertaking

environmental monitoring. On a case by case basis, the MCC also may need to provide initial assistance for environmental capacity building and training for some compact countries.

The compact approach to integrated national development being pioneered by the Millennium Challenge Corporate is an important step towards helping poor nations achieve sustainable development.

Sincerely,

Dr. Joseph A. Weinstock
Senior Environment Specialist

Monday, March 21, 2005

Dear Sirs: I am contacting MCC to provide comments concerning the Interim Environmental Guidelines, which were released for public comment on March 4, 2005. My comments are as follows:

There is no reference in the MCC to Interim Environmental Guidelines of Executive Order 13148 (2002) which mandates that all federal agencies are required to implement Environmental Management Systems (EMS) by the end of 2005. Environmental Management Plans, as defined in the Interim Guidelines, deal with mitigation and monitoring measures taken during project implementation to deal with adverse impacts resulting from project implementation. As such, an Environmental Management Plan does not constitute an Environment Management System.

An Environmental Management System, as described in the "Modernizing NEPA Implementation" report released by the Council on Environmental Quality (CEQ) in 2002, is derived from the ISO (International Organization for Standardization) 14000 family of International Standards, and specifically ISO 14001, is a management practice based on a "Plan, Do, Check, Act" model. This model is based on a standard process to identify current activities, establish goals, implement plans to meet the goals, determine progress, and make improvements to ensure continual improvement. A key aspect of the EMS is that it places responsibility for implementing an environmentally sound management system directly on the organization conducting a specific program or project. Another important aspect is that periodic audits are conducted by certified independent auditors to ascertain that requirements of the EMS are being met.

It is recommended that MCC revise its Environmental Guidelines to incorporate EMS in order to be in compliance with E.O. 13148.

Please contact me at the address given below if you have any comments or questions concerning this input.

Carl M. Gallegos, Ph.D.
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Chestertown, MD 21620-4700

Monday, May 23, 2005

The Millennium Challenge Corporation (MCC) is seeking public comment on its interim Environmental Guidelines. The stated purpose of these guidelines is to "help ensure that the projects undertaken as a part of the Millennium Challenge Compacts are environmentally sound, designed to operate in compliance with relevant regulatory requirements, and are not likely to cause a significant environmental health and safety hazard." The World Wildlife Fund has reviewed these interim guidelines and provides the following comments for the public record.

1. Scope of the EIA: The traditional EIA process as a whole is intrinsically reactive -- looking for remedial measures to mitigate negative impacts but never asking the question of how to factor in the environment. The MCC should ensure that developers think through conservation and sustainable development alternatives and opportunities? A typical example is a power plant project where the EIA concentrates on treating discharges but is not required to discuss alternative energy supply strategies. **Suggestion:** EIA guidelines are not enough to ensure that conservation and sustainable development alternatives are duly considered in the preparation of the set of projects that will go into a Millennium Challenge Compact. The MCC should demand that the teams preparing the MCC set of projects systematically consider environmental conservation and sustainable development opportunities or alternatives that exist in relation to the areas or projects to which they recipient country would like the direct the MCC moneys.

2. Consultation during the Environmental Screening: although the guidelines talk (very vaguely) about public consultations, they clearly state that MCC alone will screen the projects and decide which are non-goes or category A (full EIA) B (abridged EIA) or C (no EIA). One of the things that had raised the most public outrage regarding the EIA procedures of international agencies is precisely the project classification. **Suggestion:** The project screening should be open to public consultation.

3. Execution of the EIA: Making completion of the EIA the host country's responsibility "either directly or indirectly" places an unfair burden on countries that simply cannot afford to do an adequate job. MCC is making the investment and should have certain due diligence requirements to fulfill. **Suggestion:** For recipient countries without the capacity to perform a proper environmental assessment, or to eliminate or mitigate adverse impacts, the compact should include resources for proper implementation of the agreement through institutional capacity building to improve natural resource management, environmental quality and the protection of biological diversity.

4. Monitoring According to the Guidelines, US MCC staff will monitor country compliance with the EIA findings.. "through review of information provided by the implementing entity and site visits" It doesn't seem that the size of the MCC staff bodes well for this monitoring arrangements. They simply will not have the people and the expertise. **Suggestion:** Include (a) the option of external monitoring, (b) monitoring schemes that include the input of the affected population, and (c) clear mechanisms by

which the affected population can report on the advances and impacts of the project and file complains or suggestions.

5. Definition of what constitutes a negative environmental impact: In appendix A the definition of "Environmental, Health and Safety Hazard" (what the EIA is supposed to spot and stop) is all in terms of harmful emissions. There is no reference to biodiversity or natural resources losses or degradation. **Suggestion:** Include biodiversity and natural resources losses and degradation in the definition of Environmental Health and Safety Hazards. Actually the wording could be taken from Appendix B that referring to a particular set of projects that may fall under a particular Federal regulation do makes reference to natural and ecological resources, the environment and global commons.

Please let me know if you would like further information or clarification of the comments World Wildlife Fund has provided. Thank you.



June 2, 2005

Mr. Paul Applegarth
Millennium Challenge Corporation
875 Fifteenth Street N.W.
Washington, DC 20005

Dear CEO Applegarth:

National Audubon Society and National Wildlife Federation have reviewed the interim environmental guidelines and provide the following comments and concerns for the public record, and we thank you for this opportunity. Given the Millennium Challenge Corporation's expressed commitment to transparent decision-making, we hope that the Millennium Challenge Corporation will make clear the standard operating procedures it will follow for assessment of potential environmental harm.

For the past year we have been concerned as to exactly how the Millennium Challenge Corporation (MCC) is implementing legislative requirements regarding environmental impacts of projects funded by the Millennium Challenge Act (MCA), and have actively participated in several public hearings and meetings. We are keenly interested in hearing more about how the MCC is complying with the authorizing language in the Millennium Challenge Act of 2003. Unfortunately, after having read the interim guidelines we still have many of the same questions we have raised at the public meetings.

When will the MCC identify and implement an environmental indicator as required by the Millennium Challenge Act? To date, the MCC has been unable to identify an indicator to judge a country's sustainable management of natural resources. Congress has not been notified as to when the MCC will select an environmental indicator for country eligibility determinations. In the absence of an indicator, it is unclear how the "sustainable management of natural resources" language was incorporated into the selection of eligible countries for years 2004 and 2005.

Will environmental assessments be required prior to Compacts being approved? The interim environmental guidelines presently being used by the MCC employ a screening process to categorize projects according to a project's need of an environmental assessment; however, it has not been made clear if Compacts will be approved prior to the completion of environmental assessments, regardless of which categories proposed projects have been assigned. The lack of a standard environmental assessment process applied to all countries and projects is of concern. We do not know about the MCC's process for determining when and if a Compact should be signed without completion of environmental assessments.

What Criteria will be used to determine whether a project is categorized as an 'A', 'B' or 'C' project? The interim environmental guidelines do not adequately explain the criteria used to categorize projects in terms of need for environmental assessment; they do not specify who will determine projects' categorization; and they do not explain whether categorization, and subsequent assessment, will be made in the field where the projects will be implemented or in Washington.

How will the additive and cumulative environmental impact be measured? Procedures established by the Council on Environmental Quality under the National Environmental Policy Act include provisions for measuring additive and cumulative impacts. We hope the MCC will also include this precaution when enforcing its environmental assessment guidelines.

Will the MCC provide resources, both technical and financial, for environmental assessments? Projects assigned to interim environmental guidelines Category A require a comprehensive environmental impact assessment and plans to prevent, minimize, mitigate or compensate for adverse environmental impacts. The assessment and planning costs should be factored into each Compact, especially if the environmental assessment forecasts that adverse impacts are likely.

How will the MCC ensure enforcement of environmental assessments, environmental safeguards that result from the assessment process and monitoring and evaluation of the environmental impact through the lifetime of the project? How will the MCC address unforeseen environmental assessment and planning costs that may arise through the lifetime of the project, especially in Category C projects? It is also our understanding that MCA grants can be made available for facilitating the development of a country's MCC Compact. In theory, this money could be used to build environmental capacity within a country that does not have the financial resources or the technical expertise to carry out adequate assessments, monitoring, and evaluation. Nevertheless, to date, the MCC has not made known whether this money has been spent on environmental capacity building or whether these funds or funds from other sources will be used to carry out such functions.

Will local communities have a voice in the screening process and the environmental assessment process? The guidelines do not sufficiently address meaningful consultation with local communities. It is not clear how communities and local groups will be able to influence or comment upon projects directly impacting their communities. If the MCC is to be respected in the communities it serves, it is imperative that public participation be improved and documented.

What will be the recourse for communities or entities that believe an assessment did not meet the guideline requirements? We appreciate the MCC's push for accountability in having one MCC Officer with *"ultimate responsibility in authorizing and approving actions, and taking into consideration an appropriate environmental review that will significantly affect the global commons."* However it is a daunting task for one person to understand environmental impacts of projects in a wide variety of ecosystems all over the

world. There should be a process for local communities and other stakeholders to petition with respect to an MCC decision.

Starting a new federal program, such as the MCC, is a daunting and exciting undertaking, and we want you to succeed in making the MCC an effective vehicle for United States foreign assistance. We look forward to working with you to assist developing countries to achieve lasting economic growth and poverty reduction, which, as Congress has recognized, can only be done by protecting our shared natural resources. Please do not hesitate to contact us should you require further clarification of our comments.

Sincerely,



Betsy Loyless
Senior Vice President, Public Policy
National Audubon Society



Paul L. Joffe
Senior Director, International Affairs
National Wildlife Federation



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Comments of the Competitive Enterprise Institute on the Millennium Challenge Corporation's "Interim Environmental Guidelines for Public Comment" June 16, 2005

The Competitive Enterprise Institute (CEI) appreciates the opportunity to comment on the Millennium Challenge Corporation's (MCC) "Interim Environmental Guidelines for Public Comment," as published in the *Federal Register*, March 4, 2005.¹

CEI is a non-profit public policy organization dedicated to advancing the principles of free enterprise and limited government. Founded in 1984, CEI works on a range of policy issues both domestically and internationally.

Summary

The Competitive Enterprise Institute (CEI) has four major concerns regarding the Interim Environmental Guidelines ("the Guidelines") of the Millennium Challenge Act of 2003 (MCA):

- 1) The Guidelines would subvert the purpose of the MCA as expressed in Section 602 of the MCA. The Guidelines would also make it harder to fulfill the promises of the Millennium Challenge Accounts as they were articulated by President Bush in his call for establishing the Accounts prior to the MCA's passage.
- 2) The Guidelines would be counterproductive. They would create a short-sighted disincentive for candidate countries to pursue policies that lead to stronger economic growth, thereby reducing the amount of future resources available for improving environmental conditions.
- 3) The Guidelines are inconsistent with (a) the treatment of other restrictions on assistance as specified under Sec. 605 of the MCA and (b) the position of the U.S. government in *Friends of the Earth, Greenpeace et al. v. Peter Watson*

¹ *Federal Register*. Vol. 70, No. 42 (March 4, 2005), pp. 10690-10694.
(<http://www.mcc.gov/compacts/guidance/FR%202003-04-05%20Vol%2070%20No%20%20042%20-%20Interim%20Environmental%20Guidelines%20for%20Public%20Comment.pdf>)

(President and CEO of OPIC) and Philip Merrill (President and Chairman of the Export Import Bank of the U.S.).

- 4) The Guidelines (Appendix A) are unclear as to whether they preclude any usage of DDT, such as for indoor residual spraying to control malaria and other diseases borne by insects and other pests.

CEI believes that if the purpose of the Guidelines is “to help ensure that the projects undertaken as part of the Millennium Challenge Compacts are environmentally sound” while acknowledging that the MCC “is committed to the principle of host-country ownership of a Compact proposal,” then the MCA’s *Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance* already accomplishes this.² The Guidelines, therefore, are superfluous, at best, and counterproductive at worst.

Rather than helping developing countries to eliminate extreme poverty, the Guidelines actually discourage many economic policies which would do just that.

Thus CEI strongly urges the MCC not to include the environmental criteria as detailed in the Guidelines but to stick instead with the broader criteria for country eligibility as stated in the MCA, and as specified in 69 FR 53090-93. **The addition of the Guidelines to the criteria would undermine many opportunities for less developed countries to help build their economies and institutions and to address environmental concerns over the long term.**

Specific Comments

- 1) **The Guidelines would subvert the purpose of the MCA as encapsulated in the text of the MCA itself and would make it harder to fulfill the promise of the Millennium Challenge Accounts as they were expressed by President Bush.**

The MCA states that its purpose is to provide United States assistance for global development “in a manner that promotes economic growth and the elimination of extreme poverty and strengthens good governance, economic freedom, and investments in people.”³ Within this context, environmental concerns are raised in two places.

First, Sec. 605(e)(3) prohibits assistance “for any project that is likely to cause a significant environmental, health, or safety hazard”. The word ‘hazard’ is the key word to note, and this “hazard” must not only be “significant” but “likely”, as well. Given this, we believe that before the MCC places any items on a “categorically prohibited” list (Appendix A) it must prove that these types of activities and their magnitudes (or the intensities with which

²*Federal Register*. Vol. 69. (August 31, 2004), pp. 53090-53093.

(http://www.mca.gov/about_us/congressional_reports/Report%20to%20Congress%20on%20Criteria%20and%20Methodology%20FY051.pdf)

³ Millennium Challenge Act of 2003. Millennium Challenge Corporation. 10 December 2004 (http://www.mcc.gov/about_us/key_documents/MCA_Legislation.pdf)

they are proposed to be undertaken) are indeed “likely to cause a significant...hazard”. CEI does not see any supporting analysis from the MCC that would justify concluding that items on Appendix A would meet the above (legislated) criterion. Similarly, we think the criterion used to determine project categories, consistent with the MCA’s language, should be based on whether they are “likely to cause a significant ... hazard” rather than whether they result in “potential adverse environmental impacts.”

Second, Sec. 607 lays out the criteria under which candidate countries are considered for assistance. The general criteria follow President Bush’s earlier proposal: Candidate countries must demonstrate a commitment to (i) just and democratic governance, (ii) economic freedom, and (iii) investments in its people (i.e., health and education). Within Sec. 607, environmental concerns are raised under the second criterion, economic freedom. Candidate countries must demonstrate a commitment to economic freedom, including promoting “private sector growth and the sustainable management of natural resources.” Thus “sustainable management of natural resources” is linked with the promotion of “private sector growth” – a linkage which seems to recognize that growth and sustainability are not mutually exclusive. The Guidelines, however, do not recognize this linkage.

In its *2004 Annual Review of Development Effectiveness*⁴, the World Bank evaluated its recent strategies in combating world poverty. The World Bank found that “differences in the quality of economic institutions - broadly understood as the ‘rules of the game’ - have been found to be the most significant source of sustained economic growth in both cross-country research and case studies.”⁵ Why is sustained economic growth so important? Because “economic growth generally leads to poverty reduction” and this fact is “well established.”⁶

Again, the Guidelines do not talk about poverty reduction, do not mention the importance of economic growth nor the importance of economic institutions. The MCA and President Bush, however, both emphasize these goals. In placing adherence to U.S. environmental regulations above the goal of implementing policies that increase economic growth and, in turn, reduce poverty, the Guidelines subvert the purpose of the MCA and therefore should not be part of the MCA.

The purpose and intent of the MCA are also clearly evident from President Bush’s speech given on March 14, 2002 in which he called for the creation of Millennium Challenge Accounts.

“I’m here today to announce a major new commitment by the United States to bring hope and opportunity to the world’s poorest people...The advances of free markets and trade and democracy and rule of law have brought

⁴ Operations Evaluations Department (2005) *2004 Annual Review of Development Effectiveness: The Bank’s Contributions to Poverty Reduction*. Washington, D.C.: World Bank.
(<http://www.worldbank.org/oed/arde/2004/>)

⁵ Ibid.

⁶ Ibid.

prosperity to an ever-widening circle of people in this world... Yet in many nations... poverty is broad and seemingly inescapable... Yet many of the old models of economic development assistance are outdated... The needs of the developing world demand a new approach... This new vision looks beyond arbitrary inputs from the rich, and demands tangible outcomes for the poor.”⁷

Two things are clear from the President’s remarks. First, the MCA is a new and different kind of international aid program in contrast to traditional foreign aid programs that have not been effective at combating poverty.⁸ Second, the overriding focus of the program is on alleviating poverty. But the Guidelines neither claim to follow the spirit of the ‘new foreign aid’ nor do they specify or even mention how poverty might be reduced by following the environmental guidelines.

It is also not clear whether adopting OECD and/or World Bank practices fulfills the hope that the MCC would use a *new* approach toward development. Before these practices are adopted, MCC should evaluate whether, and to what extent, these approaches are necessary and appropriate, and whether they are worth it from the host country’s point of view in terms of time, resources and outcomes. Will this benefit the host country, or merely enrich consultants elsewhere?

2) The Guidelines would be counterproductive. They would create a short-sighted disincentive for candidate countries to pursue policies that lead to stronger economic growth, thereby reducing the amount of future resources available for improving environmental conditions.

Rather than proposing projects that increase economic growth, candidate countries will instead focus their time and energy on proposing and carrying out projects that fulfill the very specific environmental criteria laid out in the Guidelines. Yet, there is a growing consensus that economic expansion, far from threatening the environment, is actually a direct path to protecting the environment. For example, in a World Bank study of 145 countries, Dasgupta, Mody, Roy, and Wheeler (1995) found “a strong positive correlation between our environmental indicators and the level of economic development.”⁹

There is also evidence, again from the World Bank, that the overregulation of the Guidelines is not needed to police possibilities of significant environmental, health and safety hazards. Huq and Wheeler (1993) examined the push for pollution reduction within Bangladesh in the absence of formal regulation governing such initiatives. They found that “with little or no assistance from national regulators, villages in Bangladesh have shown great willingness to defend their own environmental interests. Community pressure

⁷ <http://www.whitehouse.gov/news/releases/2002/03/20020314-7.html>

⁸ See for example, Bauer, P.T. (1972) *Dissent on Development: Studies and Debates in Development Economics*. Cambridge, MA: Harvard University Press. Boone, P. (1996) “Politics and the Effectiveness of Foreign Aid,” *European Economic Review*. 40: 289-329. Erixon, F. (2005) *Aid and development: Will it work this time?* London, UK: International Policy Network.

⁹ Dasgupta, Mody, Roy, and Wheeler (1995) “Environmental Regulation and Development: A Cross-Country Empirical Analysis,” *World Bank Policy Research Department Working Paper*, No. 1448. (www.worldbank.org/nipr/work_paper/1448/index.htm)

and negotiated agreements for cleanup and compensation are common when polluters are identifiable and employment alternatives are not too scarce.”¹⁰

Every individual and community desires as clean an environment as they can afford, given other needs and demands on their resources. They balance this desire against the costs of achieving a cleaner environment (including foregoing some level of economic development if they believe that it is warranted for their overall well-being). Such trade-offs - where they must be made - are best made case-by-case, by the affected community, rather than imposed from outside or through formulaic regulations. That is the reason for emphasizing political/legal institutions (the just and democratic governance criterion of Sec. 607 (b)) as necessary conditions for receiving aid.

Thus, given that the purpose of the MCA is to promote economic growth, given that economic growth is the most effective way to reduce poverty, given that a cleaner environment is associated with increased economic development, and given that concern for the environmental consequences of development projects is not dependent on having detailed, formal regulations, CEI believes that the Guidelines are not needed and, if fully implemented, will cause more harm than good.

3a) The Guidelines are inconsistent with the treatment of other restrictions on assistance as specified under Sec. 605 of the MCA.

Sec. 605(e) of the MCA lists initiatives that would be prohibited from receiving funds. These include, in the order listed: military assistance or military training for a country; any project that is likely to cause a substantial loss of U.S. jobs or a substantial displacement of U.S. production; any project that is likely to cause a significant environmental, health, or safety hazard; and any project that helps finance abortions or involuntary sterilizations.

Each of these prohibitions seems to be of equal importance. Yet only the environmental component of the third prohibition necessitates detailed Guidelines. That selection appears to be an arbitrary one. Why not, for instance, have guidelines to ensure that there is no “substantial loss of U.S. jobs or a substantial displacement of U.S. production”? Why not require candidate countries to prepare ‘economic assessment reports’, for any proposed project, which would estimate the potential impact on U.S. jobs and production, assess how the potential losses might be mitigated and outline alternatives which would have lesser effects?

3b) The Guidelines are inconsistent with the position of the U.S. government in *Friends of the Earth, Greenpeace et al. v. Peter Watson (President and CEO of OPIC) and Philip Merrill (President and Chairman of the Export Import Bank of the U.S.)*.¹¹

¹⁰ Huq, M., and D. Wheeler (1992) "Pollution Reduction Without Formal Regulation: Evidence from Bangladesh," *World Bank Environment Department Working Paper*, No. 1992-39. (www.worldbank.org/nipr/work_paper/evidence/index.htm)

¹¹ http://www.climatelawsuit.org/documents/Complaint_2Amended_Declr_Inj_Relief.pdf

In August 2002, Friends of the Earth (FoE), Greenpeace and the City of Boulder, Colorado filed a lawsuit on behalf of their members and citizens alleging that the Export Import Bank (Ex-Im) and the Overseas Private Investment Corporation (OPIC) illegally provided financing for various overseas projects without assessing the contribution of those projects to global warming and their impact on the U.S. environment as required under the National Environmental Policy Act (NEPA). The U.S. government is currently fighting this lawsuit.

The Guidelines, however, seem to be an agreement by the U.S. government to require environmental assessments of overseas projects. In addition, the Guidelines state that “the completion of the Environmental Impact Assessment is the responsibility, either directly or indirectly, of the host country”, thereby adding tremendous costs to the poverty-stricken candidate country. Finally, the Guidelines note that “ ‘environmental impacts’ include the effects of a project on the surrounding natural environment and on the humans reliant on that environment, to include effects on cultural property, indigenous peoples, and involuntary resettlement, as well as the impacts on human health and safety.” This is a tremendous expansion of the scope of meaning of the term ‘environmental impacts’ to include social impacts that are not customarily thought of as environmental.

We believe that the U.S. government needs to decide where it stands on the issue of requiring NEPA-type environmental assessments for development projects completed in foreign countries by local workers for poverty reduction.

4. The Guidelines (Appendix A) are unclear as to whether they preclude any usage of DDT, such as for indoor residual spraying to control malaria and other diseases borne by insects and other pests.

Our concern in this regard is best summarized by quoting from the Malaria Foundation International’s 1999 *Open Letter to DDT Treaty Negotiators*, signed by over 400 doctors and scientists:

“...the relevant question is not whether DDT can pose health risks (it can), but whether these risks outweigh the tremendous public health benefits of DDT for malaria control (they do not).”¹²

Or, as Nicholas Kristoff explains in a January piece on the topic:

“The existing anti-malaria strategy is an underfinanced failure, with malaria probably killing 2 million or 3 million people each year... But overall, one of the best ways to protect people is to spray the inside of a hut, about once a year, with DDT... The main obstacle seems to be bureaucratic caution and inertia.”¹³

¹² Malaria Foundation International (1999). “Open Letter to DDT Treaty Negotiators”. (http://www.malaria.org/DDT_open.html)

¹³ Kristoff, Nicholas (2005) “It’s Time to Spray DDT” *The New York Times*. January 8.

We wonder whether that same “bureaucratic caution and inertia” has entered the language of Appendix A of the Guidelines. Thankfully, MCC has an opportunity to be proactive. The Guidelines should clarify that uses of DDT for public health purposes would be eligible for MCC funding.

Conclusion

With its many inconsistencies of purpose and substance and with its disincentives for economic growth and poverty reduction, CEI believes that these Interim Guidelines should not be used by the Millennium Challenge Corporation. Rather, the purpose of the MCA should be reiterated and re-emphasized. Economic growth is the most effective means for reducing poverty in developing countries. Institutions matter (including the rule of law, property rights and a non-corrupt government). Environmental concerns are most effectively handled by the local people involved in the development project, taking into consideration the ‘sustainable management of natural resources’ alongside ‘private sector growth’.

CEI expresses its strong concern that as currently formulated these Guidelines are a recipe for bureaucratization and increased, rather than reduced, poverty.

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Comment on Proposal to Adopt an Environmental Guidelines for the MCA

Brett D. Schaefer

Poverty is the biggest threat to the environment. As pointed out by Dr. Alan Moghissi, President of the Institute for Regulatory Science, in his testimony before the International Financial Institutions Advisory Commission (the Meltzer Commission), "how do you explain to a father in the Brazilian rain forest, who is poor, has sick children, and is hungry that he should not cut trees because it may impact the biodiversity?"¹ In essence trying to address environmental quality in poor countries focuses on the symptom rather than the disease. Until economic growth increases, "poverty [will be] the equivalent to exposure to the most toxic pollutant."² The data show that environmental sustainability is highly correlated with levels of per capita income. Unless per capita income is increased through higher economic growth, efforts to improve environmental quality will be unsustainable.

Research at The Heritage Foundation indicates that the best way for countries to increase economic growth is to adopt policies that promote economic freedom and the rule of law. Trying to impose environmental standards through MCA guidelines would undermine efforts to increase environmental sustainability in the developing nations by encouraging them to adopt regulatory standards or other measures inappropriate for their level of development. This would undermine economic freedom and impose greater costs on economic activity thereby diminishing their chances of achieving increased economic growth.

Those truly concerned with ensuring that Millennium Challenge Account grants do not cause "a significant environmental health and safety hazard" should support MCA criteria that focus on increasing economic freedom, without which economic growth is unlikely, rather than encouraging unwarranted environmental regulation. The Interim Environmental Guidelines are not needed, and could even prove counterproductive to the extent that they encourage poor nations to adopt policies that reduce economic freedom.

Economic Liberalization is the Best Long-term Strategy to Protect the Environment

The key to increasing environmental protection in developing nations is to increase economic growth. The evidence demonstrates that wealthier societies are more likely to demand and implement greater environmental protection because they can better afford the costs of those policies. Wealthier societies not only are better able to afford environmental protection, but also show a proven desire for such protection that increases as income grows.³ This relationship is supported by extensive evidence published by the National Bureau of Economic Research. Gene M. Grossman and Alan B. Krueger, for example, concluded that "pollution appears to rise with GDP at low levels of income, but eventually to reach a peak, and then to fall with GDP at higher levels of

¹ A. A. Moghissi, "Testimony Before the Commission of International Financial Institutions," November 17, 1999, available from Institute for Regulatory Science, Columbia, Maryland.

² Ibid.

³ See Gene M. Grossman and Alan B. Krueger, "Environmental Impacts of a North American Free Trade Agreement," National Bureau of Economic Research, NBER Working Paper No. W3914, November 1991; see also Jagdish Bhagwati, "Trade and the Environment: The False Conflict?" in Durwood Zaelke, Paul Orbuch, and Robert F. Housman, eds., *Trade and the Environment: Law, Economics, and Policy* (Washington, D.C.: Center for International Environmental Law, 1993), pp. 159-190.

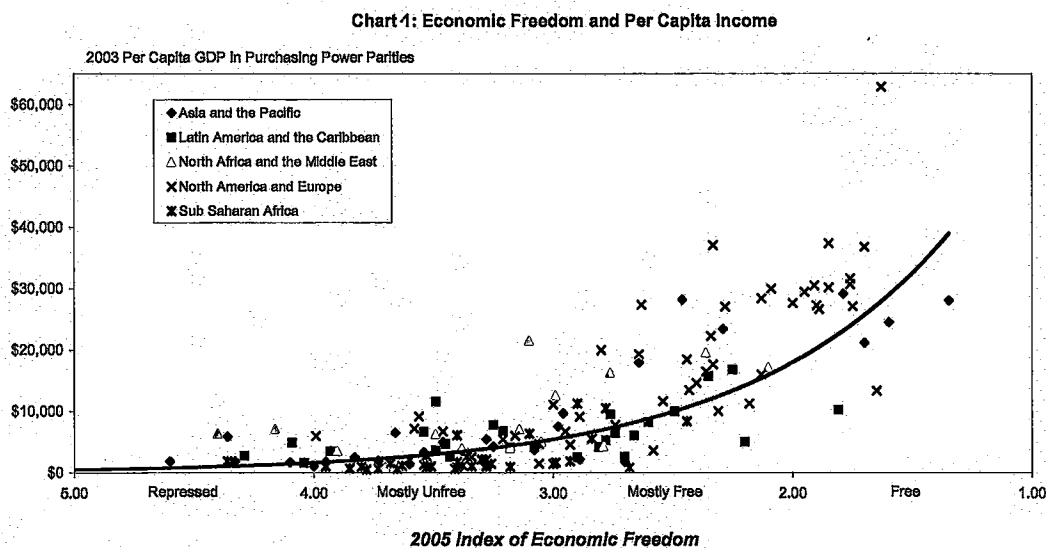
income....We find that economic growth brings an initial phase of deterioration followed by a subsequent phase of improvement.”⁴ According to Grossman and Krueger, “The turning points for the different pollutants vary, but in most cases they come before a country reaches a per capita income of \$8,000.”⁵

The bottom line is that as a country's standard of living rises, it can more readily afford to control emissions and its citizens have more discretionary income to allocate toward improved environmental quality. It is the increased wealth resulting from economic growth that allows countries and individuals the luxury of valuing green spaces for their aesthetic, health, and environmental value rather than just their potential as fields for crops or trees for fuel. By concentrating on increased economic growth, the development strategy permits greater opportunities and resources for environmental protection down the road. The United States is an example of the elasticity of spending for environmental protection. As incomes have risen over the past three decades, America has increased “real spending by government and business on the environment and natural resource protection has doubled.”⁶

Research at The Heritage Foundation indicates that the best way for countries to increase economic growth is to adopt policies that promote economic freedom and the rule of law, which are measured in the *Index of Economic Freedom*. The *Index* analyzes 50 economic indicators in 10 independent factors: trade policy, fiscal burden of government, government intervention in the economy, monetary policy, capital flows and foreign investment, banking and finance, wages and prices, property rights, regulation, and informal market activity. Those 10 factors are graded from 1 to 5, with 1 being the most free and 5 being the least free. Those scores are then averaged to give an overall score for economic freedom.

Countries are designated “free,” “mostly free,” “mostly unfree,” or “repressed” based on these overall scores.

As shown in the 2005 *Index*, “free” countries, on average, have a per capita income twice



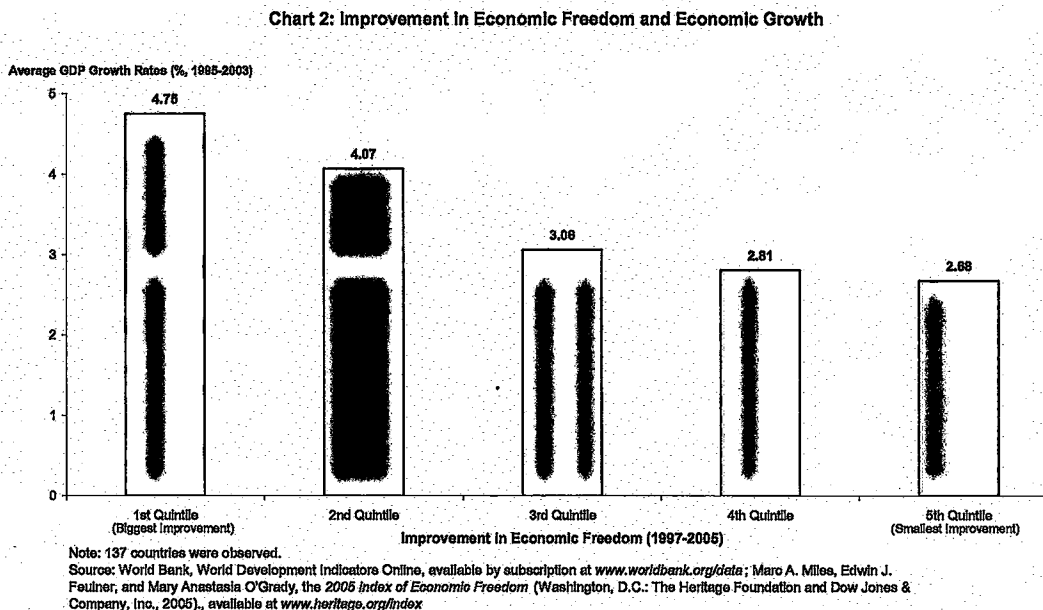
⁴ Gene M. Grossman and Alan B. Krueger, “Economic Growth and the Environment,” National Bureau of Economic Research, NBER Working Paper No. W4634, February 1994, p. 14.

⁵ See Grossman and Krueger, “Economic Growth and the Environment,” p. 14.

⁶ Daniel T. Griswold, “Trade, Labor, and the Environment: How Blue and Green Sanctions Threaten Higher Standards,” Cato Institute Trade Policy Analysis No. 15, August 2, 2001, p. 10, at <http://www.freetrade.org/pubs/pas/tpa-015b.pdf>.

that of “mostly free” countries. “Mostly free” countries have a per capita income more than three times that of “mostly unfree” and “repressed” countries. Chart 1 illustrates this relationship. Economically free countries are associated with higher per capita incomes than countries with less free economies.

Not only is a higher level of economic freedom clearly associated with a higher level of per capita GDP, but higher GDP growth rates are associated with improvements in a country's economic freedom score.⁷ Chart 2 ranks the graded countries according to the improvement in economic freedom



between 1997 and 2005. The countries represented in the left-hand bar were most improved, and those in the right-hand bar were least improved. Average growth rates across the eight years of changes were then computed for the countries in each bar or group. Across the spectrum, the more a country improved its economic freedom, the higher the average economic growth it experienced. Countries that consistently march toward improved economic freedom enjoy the most progress towards prosperity.

Further, statistical analysis supports the assertion that increasing economic freedom bolsters environmental sustainability. Economically free countries typically have a more sustainable environmental policy. In 2005, the World Economic Forum, the Center for International Earth Science Information Network (CIESIN), and the Yale Center for Environmental Law and Policy published an Environmental Sustainability Index (ESI).⁸ The Index “provides a composite profile of national environmental stewardship based on a compilation of 21 indicators that derive from 76 underlying data sets.”⁹ It does this by assigning a number encapsulating its environmental sustainability – the lower the number, the worse the ESI estimates its environmental sustainability.

Chart 3 illustrates the relationship between The Heritage Foundation/*Wall Street Journal* 2005 *Index of Economic Freedom* scores and the 2005 ESI. The chart shows a strong relationship

⁷ Marc A. Miles, “Introduction,” and Marc A. Miles, Edwin J. Feulner, and Mary Anastasia O'Grady, “Executive Summary,” in Marc A. Miles, Edwin J. Feulner, and Mary Anastasia O'Grady, 2004 *Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2004), pp. 2, 18.

⁸ World Economic Forum, CIESIN, and Yale Center for Environmental Law and Policy Environmental Sustainability Index, January 2005, at <http://www.yale.edu/esi/>.

⁹ “Chapter 1 – The Need for an Environmental Sustainability Index,” 2005 *Environmental Sustainability Index Report*, p. 7, available at http://www.yale.edu/esi/ESI2005_Main_Report.pdf.

between economic freedom and environmental sustainability. The freer an economy is; the greater its level of environmental sustainability as measured by the ESI.

Moreover, there is no evidence of a decline in

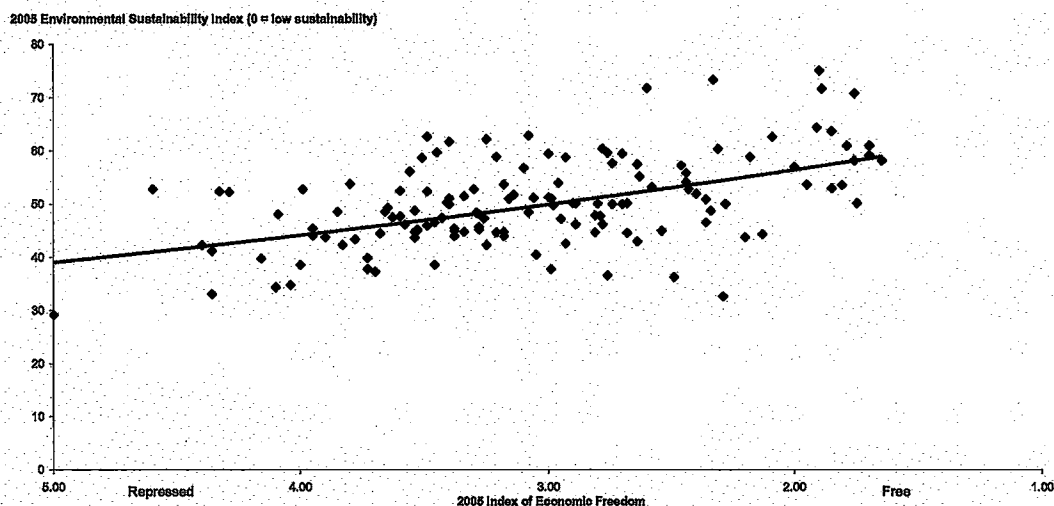
environmental sustainability as economic liberalization increases despite several studies that have shown an initial decline in environmental standards as income grows.¹⁰ On the contrary, economically free countries have an average environmental sustainability score is more than 30 percent higher than the scores of countries with repressed economies.

The lesson of Chart 4 is that economic liberalization is compatible with high standards of environmental quality.

Conclusion

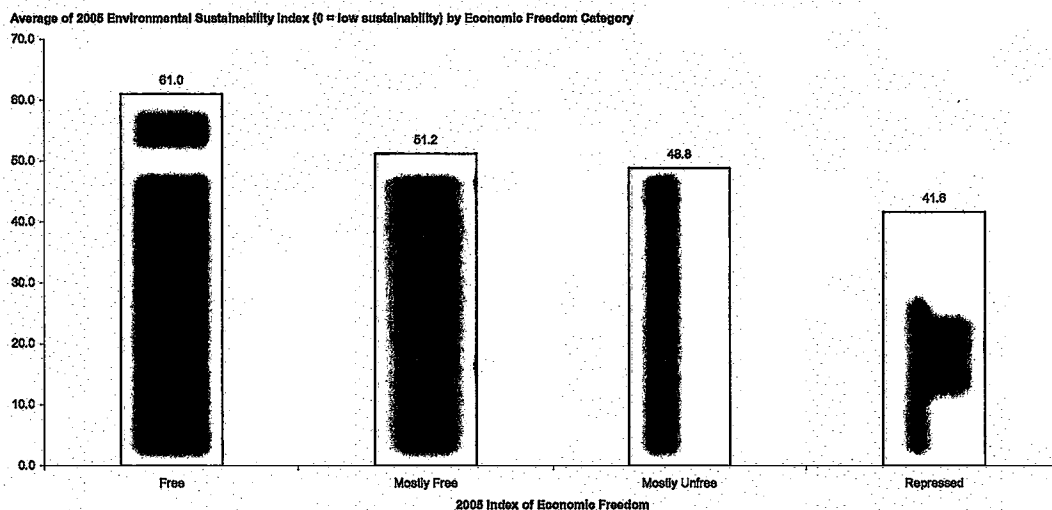
The most commonly used approach to environmental protection is government intervention in the economy through taxation or regulatory measures. Such efforts reduce economic freedom. Trying to impose environmental standards through the MCA would undermine efforts to increase

Chart 3: Relationship between Economic Freedom and Environmental Sustainability



Source: Environmental Sustainability Index from Yale Center for Environmental Law and Policy, Yale University, and Center for International Earth Science Information Network, Columbia University. Economic Freedom from Marc A. Miles, Edwin J. Feulner, and Mary Anastasia O'Grady, *2005 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2005), at www.heritage.org/index.

Chart 4: Relationship between Economic Freedom and Environmental Sustainability



Source: Environmental Sustainability Index from Yale Center for Environmental Law and Policy, Yale University, and Center for International Earth Science Information Network, Columbia University. Economic Freedom from Marc A. Miles, Edwin J. Feulner, and Mary Anastasia O'Grady, *2005 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2005), at www.heritage.org/index.

¹⁰ Gene M. Grossman and Alan B. Krueger analyzed the relationship between environmental indicators (concentrations of urban air pollution, measures of the state of the oxygen regime in river basins, concentrations of fecal contaminants in river basins, and concentrations of heavy metals in river basins) and the level of a country's per capita income. Their analysis revealed that economic growth is accompanied initially by deterioration in environmental conditions but quickly improves as per capita income increases. According to Grossman and Krueger, "The turning points for the different pollutants vary, but in most cases they come before a country reaches a per capita income of \$8,000." See Grossman and Krueger, "Economic Growth and the Environment," p. 14.

environmental standards in the developing nations by encouraging them to adopt regulatory standards or other measures inappropriate for their level of development, undermining economic freedom and diminishing their chances of achieving increased economic growth. By keeping the MCA unencumbered by environmental issues, the U.S. can help pave the way for developing countries to increase their wealth and follow in the footsteps of wealthier nations, which adopted environmental protection as they became able to bear the regulatory burden.

The surest way to promote sustainable environmental policies around the world is to increase economic growth and the standard of living in poor countries. Economic growth is associated with greater economic liberalization. Therefore, those truly concerned with protecting the environment should support MCA criteria that focus on increasing economic freedom, including the rule of law that is a key component of economic freedom, rather than encouraging unwarranted environmental regulation.

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